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TO RUEHC/SECSTATE WASHDC IMMEDIATE 9179
INFO RUEHBO/AMEMBASSY BOGOTA PRIORITY 7656
RUEHCV/AMEMBASSY CARACAS PRIORITY 3110
RUEHLP/AMEMBASSY LA PAZ JUL 1138
RUEHPE/AMEMBASSY LIMA PRIORITY 2716
RUEHGL/AMCONSUL GUAYAQUIL PRIORITY 3699

C O N F I D E N T I A L QUITO 000681

SIPDIS

TREASURY FOR MEWENS
WHA/EPSC FOR FAITH CORNEILLE

E.O. 12958: DECL: 07/25/2018
TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [EC](#)
SUBJECT: GOE AND CITY ORIENTE AGREE TO CONTRACT TERMINATION

REF: A. 07 QUITO 2665
[1](#)B. QUITO 226

Classified By: Acting Deputy Chief of Mission Nan Fife for Reasons 1.4(b) and (d)

[1](#)1. (C) Summary: U.S. oil company City Oriente finally reached agreement with the GOE on terminating its petroleum contract in Ecuador. The firm had been negotiating with the GOE for some time, and on July 22 accepted the GOE's offer of \$70 million. City Oriente expects to terminate its contract at the end of July, and then leave the country. End Summary.

[1](#)2. (C) U.S. oil company City Oriente has reached agreement with the GOE on terminating its petroleum contract. The company has not been paying the GOE as required under a 2006 law requiring companies to provide the government with at least 50% of "extraordinary" petroleum revenues, and had been threatened with cancellation of its contract (ref A). In recent months, it has been negotiating with the GOE on terminating or restructuring its production contract (ref B).

[1](#)3. (C) City Oriente presented a proposal to the GOE in March whereby the GOE would provide compensation for its investment and take over its petroleum operations. At the end of June, City Oriente met with President Correa and his staff regarding the proposal. The meeting cleared up an important misunderstanding - Correa was under the impression that City was demanding \$200 million for its contract, but it was only asking for \$85 million. Correa was enthusiastic about the proposal and requested that it be reviewed by the hydrocarbons authorities for discrepancies. On July 22, City Oriente received a letter from state oil company Petroecuador notifying the firm of Petroecuador's review of the numbers. The letter highlighted a discrepancy and reduced the GOE's offered payout amount to \$70 million. City Oriente accepted the revision. Contract termination is expected to be completed by July 31.

[1](#)4. (C) City Oriente representatives report they consider \$70 million sufficient and are pleased with the result of the negotiations. They further report that they will not stay in Ecuador following termination of their contract (initially, they had mentioned the possibility of staying and operating under a service contract). Correa told them that if they receive cash for their contract termination, they would have to leave the country (another option would have been to recover their money over time under a new and different type of contract). However, company representatives mentioned that Ecuador could be a possibility in the future under a different administration.

